NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314

DATE: **September 2010** **LETTER NO.: 10-CU-20**

TO: **Federally Insured Credit Unions**

SUBJ: **NCUA's 2010 Corporate Credit Union Rule**

REF: **12 C.F.R Part 704**

Dear Board of Directors:

On September 24, the NCUA Board took several important actions to resolve ongoing problems with a handful of corporate credit unions and to reform the corporate system under a stronger regulatory framework.

One of those actions was to finalize major revisions to Part 704, NCUA's rule governing corporate credit unions. The purpose of this letter is to highlight issues that might be of particular interest to member credit unions which depend on corporates for financial services.

The final rule establishes a new capital structure, including risk-based capital requirements, to provide corporates with a stronger capital base. It establishes prompt corrective action (PCA) requirements for corporates so that NCUA has the tools it needs to deal with undercapitalized corporates going forward. It includes new limitations on corporate investments and credit risks, as well as asset-liability management controls, so that high concentrations of the types of investments that caused the corporate crisis will never be permitted again. It provides for greater NCUA oversight and control of corporate CUSO activities to protect against the possibility that systemic risk might migrate from corporates to their CUSOs. And it amends the existing corporate governance provisions to ensure corporate board members have the necessary background and expertise.

NCUA is determined not to just regulate to the *last* financial crisis, because the *next* crisis will surely be different. Accordingly, the new rule includes necessary provisions which protect against more than mortgage and credit risk. For your convenience, NCUA has prepared a separate document that summarizes the major revisions in more detail. That summary document is attached.

The new corporate rule will become effective 90 days after it is published in the *Federal Register*. These next two pages raise additional issues that members of corporate credit unions will need to consider as the new corporate rule is implemented.

Corporate Recapitalization

The corporate crisis has reduced the capital in many corporates to unacceptable levels. Many of these corporates will have to recapitalize to survive. The only realistic source of capital for corporates in the short term is the corporate's members. Member credit unions will face decisions about what services they will continue to receive from their corporates and whether they are willing to recapitalize their corporates to receive those services. Before deciding whether to recapitalize a corporate, member credit unions will need to understand how the final corporate rule will work, how the rule will affect the corporate, how the corporate will change its business plan going forward under the rule, how much new capital the corporate will need from them, and when it will be required.

Pages 1 through 5 of the attachment summarize the new corporate capital requirements and how they will be phased in over time. While none of the new capital requirements will go into effect until October 2011, during that one-year period corporates and their members will need to coordinate their approaches. Prior to October 2011, affected corporates will have to solicit and receive some amount of contributed capital so that the corporates have the required capital by the one-year anniversary of the rule's publication date.

Some corporates may also have to solicit additional capital around the third anniversary (e.g., October 2013).

Disposition of Legacy Assets

As NCUA publicly stated at the beginning of the rulemaking process, this corporate rule by itself cannot help those corporates holding investments that have suffered significant Other Than Temporary Impairment (OTTI) and that carry the probability of future credit losses which will exceed the corporate's existing capital. Those corporates have been placed in federal conservatorship. As promised, NCUA has released its plan for dealing with those corporates' "legacy assets." Please visit our website at http://www.ncua.gov/Resources/CorporateCU/CSR/Resolution.aspx for details on the plan.

A handful of other corporates have lesser positions in legacy assets. Their associated credit losses are *not* likely to exceed the corporate's existing capital. In appropriate cases, NCUA will permit corporates that cannot sell their legacy assets to retain those assets while they amortize down. NCUA will provide those corporates with waivers and other regulatory relief to assist them in building retained earnings. Please see the preamble of the final rule for more information on this issue.

Further Amendments to Corporate Rule

NCUA issued proposed revisions to the corporate rule in November 2009. Since that time NCUA received significant feedback -- including formal comments on the rule from 815 public commenters, as well as informal comments through numerous town hall meetings and other formats.

Much of that feedback resulted in changes to the final rule which the NCUA Board approved this September. Some of the feedback, though, went beyond the scope of the November 2009 proposal. Ideas that are beyond the scope of a proposed rule cannot be addressed in the follow-on final rule. Nonetheless, NCUA is considering some of these ideas and plans in the near future to issue another proposal with further revisions to the corporate rule.

More information about these further amendments is located in Section V of the preamble to the final September rule. While the credit union industry should be aware of the upcoming rulemaking, these additional proposals should not keep corporates and their members from making plans about corporate activities, services and recapitalization going forward.

Additional Information

NCUA anticipates that you may have questions about this ongoing process, and we plan to establish numerous forums to address your questions. On September 27, I will host a webinar for all interested credit union representatives. Following that, NCUA will hold 11 more town hall meetings – at least two in every region of the country throughout October.

In addition, NCUA has posted detailed information in a new "toolbox" on the website at http://www.ncua.gov/Resources/CorporateCU/CSRMain.aspx.

If you need further information or clarification, I encourage you to contact NCUA's new Corporate Resolution Call Center at 1-800-755-1030, your NCUA regional office, or your supervisory examiner.

On behalf of NCUA, I want to express my appreciation for the patience which credit unions have shown as we worked through this inclusive rulemaking process. Your comments have been vital in helping to complete a robust final rule. With this new corporate rule, as well as a prudent plan to resolve the legacy assets, credit unions can plan for the future with confidence.

Sincerely,

/s/

Debbie Matz
Chairman

Attachment